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FISCAL IMPACT STATEMENT

LS 6520
BILL NUMBER: SB 223

NOTE PREPARED: Jan 17, 2008
BILL AMENDED:

SUBJECT: Coal Gasification and Substitute Natural Gas.

FIRST AUTHOR: Sen. Hershman
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Coal Gasification Technology Investment Tax Credit:* This bill provides that a taxpayer awarded a coal gasification technology investment tax credit may agree to use less than 100% Indiana coal in the qualifying coal gasification project and qualify for the credit if the taxpayer: (1) wishes to assign the tax credit; and (2) certifies to the Indiana Economic Development Corporation (IEDC) that partial use of other coal is necessary to result in lower rates for Indiana retail utility customers.

Substitute Natural Gas: The bill changes the definition of "substitute natural gas" to include gas: (1) produced by a facility outside Indiana; and (2) converted from coal from a location other than the Illinois basin. It also changes the definition of a "customer choice program" to include customers located in the service area of an electric utility and provides that when substitute natural gas (SNG) purchase obligations are proportionally assigned due to a customer choice program, the assignee must meet the assignment requirements in the previously approved contract for purchase of the SNG.

Effective Date: January 1, 2008 (retroactive).

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms and instructions to incorporate the bill's provisions in regard to the coal gasification technology investment tax credit. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Summary:* This bill provides that a taxpayer awarded a coal gasification technology investment tax credit may agree to use less than 100% Indiana coal in the qualifying coal gasification project if they wish to assign the tax credit and certify to the IEDC that partial use of other coal

is necessary to result in lower rates for Indiana utility customers. It also removes the requirement that “substitute natural gas” must be gas produced by a facility in Indiana that converts coal from the Illinois Basin. The bill’s provisions, and thus the revenue impact, would be effective beginning in FY 2009.

The potential amount of tax credits that may be granted for coal gasification facilities for the purpose of producing a substitute for natural gas is indeterminable and will depend upon review and approval of creditable investment by the IEDC; and determinations by the IURC that the public convenience and necessity requires the installation of the facilities.

Background: The coal gasification technology investment tax credit may be taken against a taxpayer's tax liability arising under the Adjusted Gross Income (AGI) Tax, Financial Institutions Tax, Insurance Premiums Tax, and Utility Receipts Tax. The tax credit is for qualified investment in an integrated coal gasification power plant which converts coal to synthesis gas and uses the synthesis gas to generate electric energy. The credit is equal to 10% of the first \$500 M in qualified investment, and 5% of the qualified investment exceeding \$500 M. Current statute also provides for a separate and lesser tax credit for qualified investment in fluidized bed combustion technology. This credit would be equal to 7% of the first \$500 M in qualified investment, and 3% of the qualified investment exceeding \$500 M. A taxpayer may take the credit in 10 annual installments beginning with the year in which the taxpayer places the integrated coal gasification power plant or fluidized bed combustion unit into service. The annual credit installment that a taxpayer may claim is equal to the lesser of the percentage of the coal utilized during the taxable year in the facility that is Indiana coal multiplied by: (1) 10% of the total credit amount; or (2) the greater of (a) 25% of the taxpayer's total state tax liability for the taxable year or (b) the taxpayer's Utility Receipts Tax liability for the taxable year.

Revenue from the Corporate AGI tax, the Utility Receipts Tax, the Insurance Premiums Tax, and the Financial Institutions Tax is deposited in the state General Fund. Eighty-six percent of the revenue from the Individual AGI Tax is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: IURC; IEDC.

Local Agencies Affected:

Information Sources:

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